Stop & Shop Annual Report 1966

COMPARATIVE HIGHLIGHTS

	1966 52 Weeks	1965* 53 Weeks
SALES	$469,850,327	$423,172,518
EARNINGS:		
Before taxes on income	$ 5,788,519	$ 8,867,361
After taxes on income	$ 3,463,367	$ 5,254,054
Reinvested in the business	$ 1,180,404	$ 3,579,384
% of net earnings to sales	.74%	1.24%
Per share of stock now outstanding, less shares held in Treasury	$ 1.15	$ 1.74
CASH DIVIDENDS PAID	$ 2,282,963	$ 1,674,670
Per share	$ .75	$ .55
STOCK DISTRIBUTION	———	3%
CURRENT ASSETS	$ 46,299,775	$ 41,296,545
CURRENT LIABILITIES	$ 24,900,306	$ 23,487,623
WORKING CAPITAL	$ 21,399,469	$ 17,808,922
CURRENT RATIO	1.86	1.76
SHAREHOLDERS' EQUITY	$ 40,794,517	$ 40,452,686
FOOD STORES OPENED	4	2
FOOD STORES CLOSED	6	4
FOOD STORES IN OPERATION AT YEAR END	139	141
SELF-SERVICE DEPARTMENT STORES OPENED AND ACQUIRED	7	7
SELF-SERVICE DEPARTMENT STORES CLOSED	1	———
SELF-SERVICE DEPARTMENT STORES IN OPERATION AT YEAR END	36	30
EMPLOYEES	12,548	11,742

**1965 figures have been restated to include the realty subsidiaries.*


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TO OUR SHAREHOLDERS:

Our rapid growth continues. Sales for the 52-week fiscal year ended July 2, 1966 were a record $469,850,327, up 11% from $423,172,518 in 1965 (53 weeks). This was the 16th consecutive year-to-year sales gain for the company. Net income for the year was $3,463,367, or $1.15 per common share outstanding at year end, compared to 1965 results of $5,254,054 or $1.74 per share, restated, for comparison, to a like number of shares.

The expected drop in net income occurred during the initial stages of our aggressive "mini-pricing" program, in which we eliminated trading stamps in the last 73 stores, reduced store-wide prices, and substantially increased advertising and promotion expenditures. As anticipated, sales volume and number of customers have been steadily increasing. Profits have resumed satisfactory levels, and continue to improve.

During the year we added four large new food stores, and closed six smaller units. We continued to add large combination outlets with the opening of our new Pittsfield, Mass., store which contains food and mercantile operations under the same roof. Ten new food stores are scheduled to be opened in the period through June 1967.

Major remodeling, redecoration, and refixturing were completed in ten of our food stores, with an investment of more than $1.5-million in these facilities during the year.

Seven Bradlees convenience department stores were opened during the year. Six of these mercantile outlets were new construction, while the seventh, in Sayreville, N. J., was a building which we purchased and remodeled prior to reopening. One mercantile store was closed by fire and has not yet been reopened. Two additional Bradlees stores were opened subsequent to year end, and eight more are scheduled to open during the remainder of the current 12-month period. One of these is a relocation of an existing store.

Sidney R. Rabb; Donald A. Gannon; Irving W. Rabb

At year end we were operating 139 food and 36 mercantile stores. Eight of these are large combination food-mercantile units. In fourteen other locations we have food and mercantile stores in the same shopping center.

Important management appointments were made during the year. In September 1965, Donald A. Gannon, a veteran of more than 40 years of retail store operations and management experience, was elected president of Stop & Shop, Inc. Mr. Gannon, who was executive vice president, joined the company in 1944, and has held executive positions in sales, buying, and retailing. During his many years in the retailing industry, he has served on many national, regional and local industry committees. He also served four years as Trustee and two years as Chairman of the Board of Trustees of the University of Vermont.

Also in September, Irving W. Rabb was named to the post of vice chairman of the board and chairman of the executive committee, the other members of which are board chairman Sidney R. Rabb, Donald A. Gannon and Lloyd D. Tarlin. With more than thirty years' active experience in all phases of operation and management of the company, Mr. Rabb is eminently qualified to undertake these new top management responsibilities.

Lloyd D. Tarlin, financial vice president for 13 of his 36 years with the company, was additionally elected corporate treasurer in September 1965.

Avram J. Goldberg was appointed vice president, food division, in May 1966, when that division was created as a separate unit, combining retailing and store operations into one autonomous operation. Mr. Goldberg had most recently been corporate vice president in charge of food store operations. He also served as vice president in charge of real estate operations.

Jack Solomon, a corporate vice president, became president of our Bradlees division, having been the division's general manager. With the company for more than ten years, he had held several executive posts, including four years as general manager of the Bradlees division and two years as food sales manager. Appointed divisional vice presidents of the Bradlees division were Anast W. Giokas—Advertising; Richard Shuman—Stores Operations; and Arnold Siegel—Merchandising.

Charles R. Carroll, Jr., a corporate vice president, was appointed to direct the company's increasingly active geographic expansion program.

Harold E. Fine was elected corporate vice president, operating services.

J. David Fine became divisional vice president, labor relations. Albert S. Frager was named divisional vice president and controller. Also appointed divisional vice president was S. Robert Silverman, warehousing and transportation. Subsequent to year end, Mrs. Carol Goldberg became divisional vice president, marketing services.

CASH DIVIDEND INCREASED

For the second consecutive year, the board of directors increased the regular quarterly cash dividend on our common stock, raising it from $0.15 to $0.20, beginning with the January 1966 payment.

By the end of the year, the company had drawn the remaining $5-million of the $16.5-million insurance company loan commitment negotiated in 1961 to finance our aggressive expansion and modernization program. An agreement was also reached with this lender to refinance the existing $16.5-million note to a $20-million loan, at 5.3% interest. The added $3.5-million will be taken in April 1967.

During the year, 45,200 shares of company stock were repurchased on the open market and added to treasury stock, bringing the total of such shares to 77,299. This stock was purchased to be used for future acquisitions and other purposes.

A decision has been made to change our fiscal year to end in January, so that the next "annual" report to stockholders will cover the period to January 28, 1967. Several reasons prompted the change. Most important, it is a "natural" year for the mercantile business. The change thus reflects the increasing relative importance of this part of our activities. At the same time, we will put various subsidiaries onto a uniform fiscal year and simplify our corporate structure.

MINI-PRICING IS A SUCCESS

The program to drop trading stamps from all of our food stores was completed in August 1965, with a massive 10-day changeover in which we converted the remaining 73 stores in the food chain to mini-pricing. This decision had followed a complex trial period extending over several years, during which we tested the effects, in scattered markets, of dropping trading stamps, and applying various combinations of aggressive pricing and sharply increased promotional efforts.

This "return to fundamentals" in the retailing business was

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A) Fred Levinson, department store merchandising; John H. Silva, construction planning; Robert W. Kimball, department store merchandising. B) James Reynolds, meat merchandising; James Bright, field management, food. C) Frank Crowley, real estate; Robert H. Kroeger, Connecticut division. D) Lloyd D. Tarlin, finance; Jack Solomon, department store division management.

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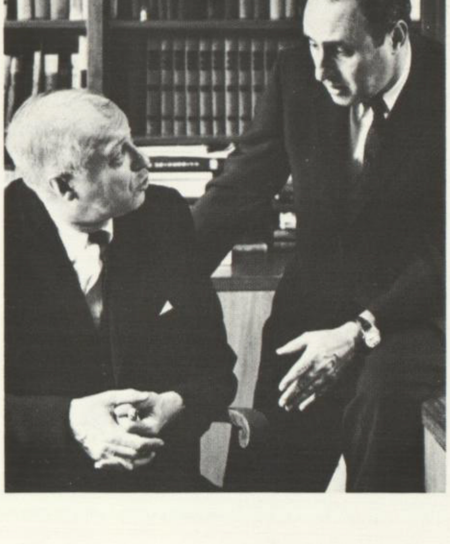

based on our desire to provide quality food to the widest possible market at ever lower costs. We could only succeed if we could attract — and hold — substantial numbers of new customers, to gain the economies of high volume and rapid turnover. Thus it is important to note that mini-pricing requires, if anything, *more* careful attention to such matters as product quality, courteous service, and neat store appearance, to avoid the impression that prices have been cut at a sacrifice of these other values.

After almost a year of chain-wide experience, we are gratified with the total effectiveness of the program. Sales are at a record rate, and customers give us excellent quality ratings. At the same time, food is a bargain at Stop & Shop stores.

Of course, mini-pricing is not a complete answer in itself. Supporting operating economies and improvements have been introduced. These include extensive use of data processing to improve ordering methods and reduce inventory needs; reorganization along functional lines, with centralization of staff services and decentralization of operating management; increased size of selling areas in new stores, to spread fixed store costs over a larger sales base; expansion of training programs, to improve store management efficiency; revolutionary and evolutionary improvement of store interiors, to attract and speed traffic flow; geographic expansion, to increase the sales base supporting office overhead; addition of new departments to existing and new stores, to broaden the product lines offered; and the consistent, company-wide experimentation with new methods of display, store layout, new departments, and responsiveness to customer requirements.

STORE OPERATIONS EVOLVE

The trend toward newer and larger food stores is seen in the fact that the four stores opened this year had an average selling area of more than 16,000 square feet, almost twice the 8,500 square foot average of the six stores which were discontinued. By the end of calendar 1966, only fifteen stores more than 10 years old will be in operation.

Many changes have been made in food store interiors. Aisles have been widened, to permit freer traffic flow. Display cases, particularly for frozen foods and dairy products, have been redesigned and departments have been enlarged. Florist and delicatessen departments are being selectively introduced, with encouraging results. Specialty food departments have also been introduced on an experimental basis, to respond to local buying habits.

Our Lexington, Mass., Stop & Shop unit is characteristic of our efforts to adapt the individual store to its neighborhood location. The store is fully carpeted, with costumed, rather than uniformed employees, a specially designed greenhouse-like florist shop, and other design innovations.

In Bradlees stores, the trend is also toward better designed fixturing plus a continuous effort to improve interior decoration. Store size is relatively constant at 60,000-80,000 square feet, and all stores are less than 7 years old.

We are continuing to expand our ownership of Bradlees sales departments. At fiscal year end, approximately 65% of

all sales were through owned departments. Particular emphasis is being placed on the acquisition of fashion, sporting goods, and automotive departments, for which central buying and merchandising staffs have been set up.

MERCANTILE DISTRIBUTION, BUYING ACTIVITIES INCREASE

To handle our Bradlees division's increasing sales volume, the company recently opened a new 250,000-square foot distribution center and executive office building in Braintree, Mass. Equipped with the latest data processing and advanced materials handling facilities, this highly automated distribution center handles incoming shipments, warehousing, and order preparation for the merchandise going to all of our mercantile stores. The plant is also designed to accommodate future expansion of this activity.

A comprehensive new quality control operation is being established at the distribution center, to check incoming shipments of all products purchased to Bradlees specifications. The department will spot check every shipment received, and work with manufacturers to correct any deficiencies.

During the past year buyers travelled widely to European, Far Eastern, and California markets. Emphasis in Europe has been on native Italian hand crafted ceramics, glassware, and other gift items, as well as fashions and knit products. Products from the Far East included clothing, housewares, and gifts. We have also introduced new and successful California lines of women's and children's sportswear.

FOOD MANUFACTURING GROWS, DIVERSIFIES

It has been our policy, wherever practicable, to manufacture our own bakery products and prepared fresh foods, in order to be able to combine consistently high quality with the

A) S. Robert Silverman, warehousing; Harold E. Fine, operating services. B) Robert H. Knowles, industrial engineering; Paul C. Kelly, corporate staff; Lewis J. Housman, quality control.

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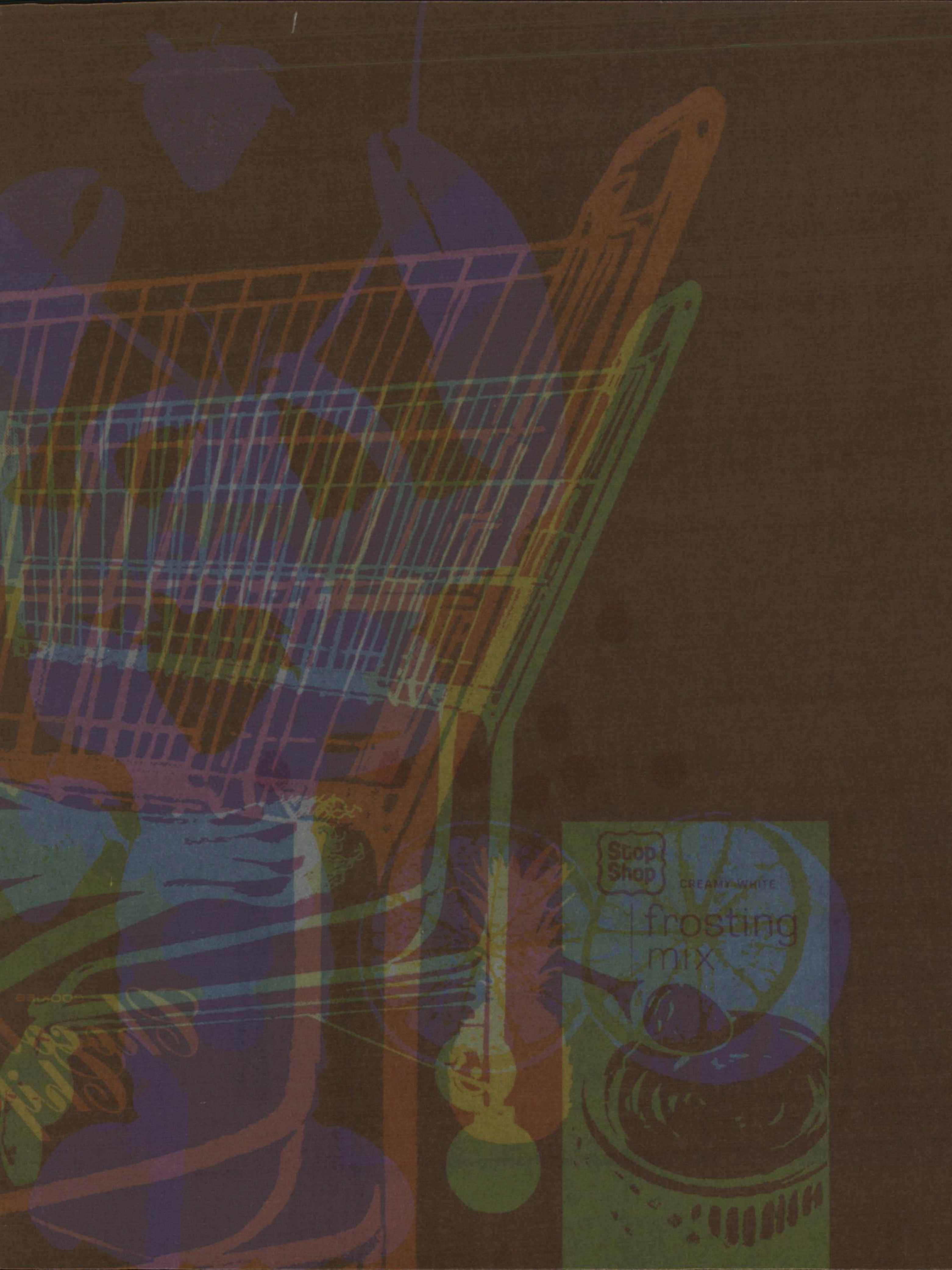
COOKIES


Stop Shop
CREAMY WHITE
frosting mix

lowest possible price. As our food store operations increase in volume, we are able to add to the scope of this activity, offering a widening range of goods prepared in our own kitchens.

The $1.25-million first phase of the current expansion and modernization of our Causeway Street bakery is now complete. This program is part of an intensive, company-wide cost reduction effort to support "mini-pricing" with "mini-costs."

Under this program, a 300,000-lb automatic bulk flour handling installation has been completed. This unusual piece of equipment consists of 3 two-story-tall closed flour bins with a complete pneumatic material-handling system to carry flour to various automatic batch mixing stations in the bread and roll production lines.

Another part of the expansion is a completely mechanized soft roll and sweet goods line which has just entered production. This is one of the first lines of its type in the country, and enables us to manufacture and package large quantities of these products, from batch mixing through forming, rising, baking, and packaging without the product being touched by human hands.

Also nearing completion is a refrigerated batch process cream room, which is scheduled to be ready for the fall production of whipped cream toppings and fillings of various types.

New bakery products are under development at all times. Recent successful introductions include a line of "Home Kitchen" specialty muffins, which are being packaged in clear plastic trays which were developed specifically for us. Other new products include a line of danish pastries made by a new process which eliminates the twenty-four-hour "rest," which used to be required for these products between forming and baking. Earlier, we had stopped manufacture of these products, pending development of this new process.

In the Readville commissary, where we manufacture our prepared foods, construction is under way on an expanded warehouse and a large frozen food locker, which will be used for storage of various frozen specialty items to be introduced this fall. Included in this line will be chicken cacciatore, lasagna, and chicken wings in Hawaiian sauce.

Other new products being introduced from this plant include a promotional line of pizzas with a choice of various toppings; a baked meat lasagna which has just received government approval; specialty salads; individually wrapped barbecued chickens; family-sized meat pies; and prepared puddings.

Our own brand of non-carbonated soft drinks is being broadened by adding grape and pineapple-grapefruit beverages.

DATA PROCESSING SPREADS RAPIDLY

One of the critically effective steps taken during the past year to improve operating efficiency has been the completion of data processing and information handling installations in both food and mercantile operations.

In food operations the system covers reordering of all grocery items. With this new method, grocery managers follow a prescribed route through their store with an order sheet, indicating quantities and items needed to replenish stocks. Nightly, this information is transmitted by Tally telephone to central

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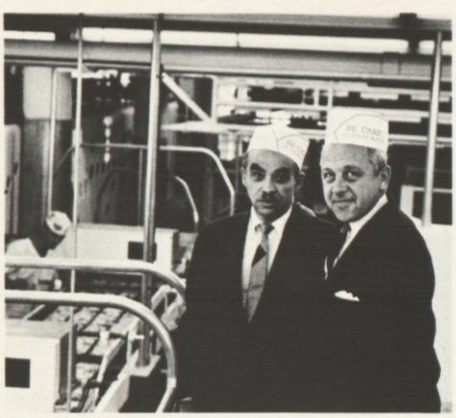

A) Spyros A. Gavris, field management, food; Ralph J. Lordi, grocery merchandising. B) Arthur Norris, manufacturing; Charles R. Carroll, Jr., geographic expansion.

headquarters, where the information goes through an IBM 360 computer. Orders, sent directly to the warehouse, are picked out and shipped the same night, so that the store receives all requested goods before the next morning's opening. This flow of information is also used by buyers as a basis for new orders to replenish stocks.

Data processing for Bradlees operations is used to transmit detailed items and classification information from stores to headquarters. All of our present 37 mercantile stores are integrated into the system, which contributes significantly to decisions on buying, warehousing, and inventory controls.

Merchandise is registered twice at the check-out counter. The first entry on the register is for actual sales purposes. The second entry prepares a punched tape record of the transaction, completely identifying the item sold. Weekly records of all sales are transported to our data processing headquarters, where the tapes are run through computer equipment which lists the items sold. These reports arrive at the buyers' desks in Braintree every Monday morning, serving as an up-to-the-minute aid for that week's decisions on what merchandise to buy (and, perhaps more importantly, what not to buy).

Equipment presently used in this work includes a new IBM 360, purchased during the past year, plus an IBM 1401 and NCR equipment.

The company has another IBM 360 on order, due next spring. Our investment in this equipment reflects the growing need of mass distribution for rapid handling of very large amounts of data. To house our computer equipment, a 25,000 square foot section of air conditioned office space has been added.

In addition to furnishing computer services to the various operating divisions, this equipment is being used to prepare several "product movement lists" for market research organizations which pay for this service on a contract basis.

Computer techniques are in the early stages of application on other corporate problems. For example, an operations research specialist has been added to the information systems division and is presently performing a transportation analysis, based on model shipping schedules, to minimize this part of our distribution costs. Other studies are in the planning stages.

Finally, our rapidly growing work force has led us to initiate the first steps in automation of personnel records, to expedite the handling of data on more than 12,000 employees. A systems specialist has been transferred from our information systems division to the personnel staff to assist in the conversion of data from manual to computerized handling.

TOWARD MORE EFFECTIVE USE OF MANPOWER

As in much of American business today, mass retailing is beginning to feel the impact of an emerging new breed of alert young managers. To compete successfully in this situation, unprecedented emphasis is being placed on selection and training of new people for all levels of the company. Traditional patterns of recruiting and promotion have been reviewed and modified. Retailing has become a young man's business, with the average age of middle and upper middle management people ranging from the late twenties to mid thirties. College recruiting has become a necessity. Rapid progress within the organization is becoming the rule rather than the exception.

In keeping with this, a new corporate committee, our Executive Manpower Board, under chairmanship of the president, has been established specifically to identify high-potential em-

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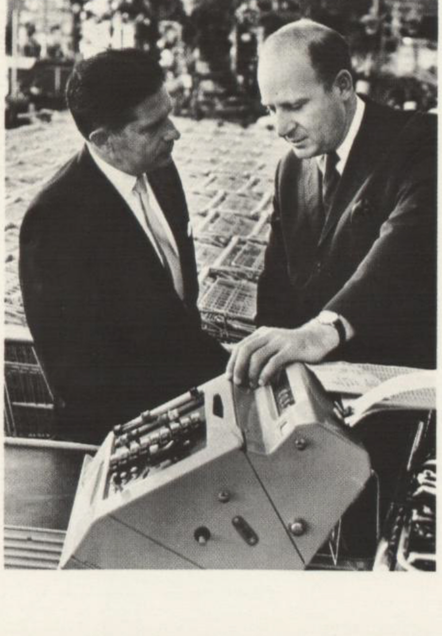

A) Richard F. Spears, market research and planning; Albert S. Frager, finance. B) J. David Fine, industrial relations; Avram J. Goldberg, food division management. C) Sidney L. Goldstein, field management, food; Joseph L. Riemer, Jr., computer systems. D) Alfred A. Ponte, produce merchandising; Donald W. Stowbridge, food store operations; Anthony DiNardo, personnel. E) Louis Steinberg, design; Aaron Kornetsky, product development; Burton J. Weinbaum, food merchandising.

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ployees for our rapidly expanding organization. Members of this nine-man group are responsible for screening large numbers of candidates for an accelerated training program. The board then selects those individuals who appear most likely to be able to make significant creative and constructive contributions to our operations.

Four other levels of formal training programs are now being carried out, for office employees, store managers, department managers, and store employees. One of these, a new supervisory training program, was introduced during the year, and department managers began attending these intensive courses. To date, 136 of our 1,000 department managers have received this added schooling.

In addition, there are presently 34 food store manager trainees attending in-depth management courses, compared with four in 1964. More than one-third of our administrative, technical, and professional people attended other management and supervisory courses last year, while upwards of five thousand store employees received direct skills training.

ADVERTISING TAKES ON A NEW LOOK

With mini-pricing's advent, large-scale advertising and sales promotion activities were undertaken during the year, ranging from special in-store "event" promotions to heavy use of spot television commercials; from "billboard" storefront designs to wholesale redesign of packaging and product displays.

The key change, though, was in our unprecedented emphasis on research as a marketing tool. Areas studied covered all of our marketing service activities. Consumer attitudes and awareness were checked at frequent intervals. The effects of various advertising media combinations were closely studied,

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and novel and unexpected findings showed up, improving our advertising "mileage." Feedback from research became a basic source of market-oriented knowledge of our customers' attitude toward us as a company.

A steady stream of improvements began to flow in response to these findings. Many of our private brand package designs were upgraded, emphasizing the best in contemporary design to convey product value. Circulars and print advertising were modified to sell the concept as well as the facts of mini-pricing. New television and radio campaigns were developed to underscore the total meaning of mini-pricing, with real-people testimonials on television, and with an "extra helpings with mini-pricing" radio campaign. Both of these series were run on saturation schedules, repeated twice during the year. Audience surveys showed the high effectiveness of these campaigns.

Point-of-purchase materials developed for mercantile stores emphasized the Bradlees private labels, which are being more widely applied to cosmetics, clothing, and domestic products. A "way out Western" label series was developed for several lines of "mod" clothes sold in different departments, identifying these lines as part of the same design family. Other labeling improvements have been introduced, to help the shopper in a self-service environment. The new labels carry information on comparative sizes, cleaning, and other helpful hints.

During the year, our advertising and sales promotion efforts were greatly helped by our Boston advertising agency, who worked with our staff on all print advertising and who created and produced our broadcast commercials; and our New York sales promotion firm, which specializes in "ideas to help sell," including store-wide "events," contests, private label premiums, and the like.

TWO DIRECTORS ADDED TO BOARD

At the September 1965 annual meeting, shareholders elected Avram J. Goldberg and William W. Wolbach to the board of directors. Mr. Goldberg is now vice president, food division. Mr. Wolbach is president of The Boston Company, a banking and diversified investment management organization.

This has been an eventful year, in which many programs have come to fruitful maturity, while the groundwork was being prepared for further advances. Our decision to abandon trading stamps has been widely noted. This attention, though, has perhaps obscured the many other real and constructive actions which have contributed to the well-being of our total complex. Stop & Shop is an organization of more than 12,000 important people, each of whom, in his or her own way, is helping us toward our corporate goals.

Sidney R. Rabb

Chairman of the Board

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A) Arnold Siegel, department store division management; Anast W. Giokas, advertising. B) Carol R. Goldberg, marketing services; Richard I. Shuman, field operations, department stores.

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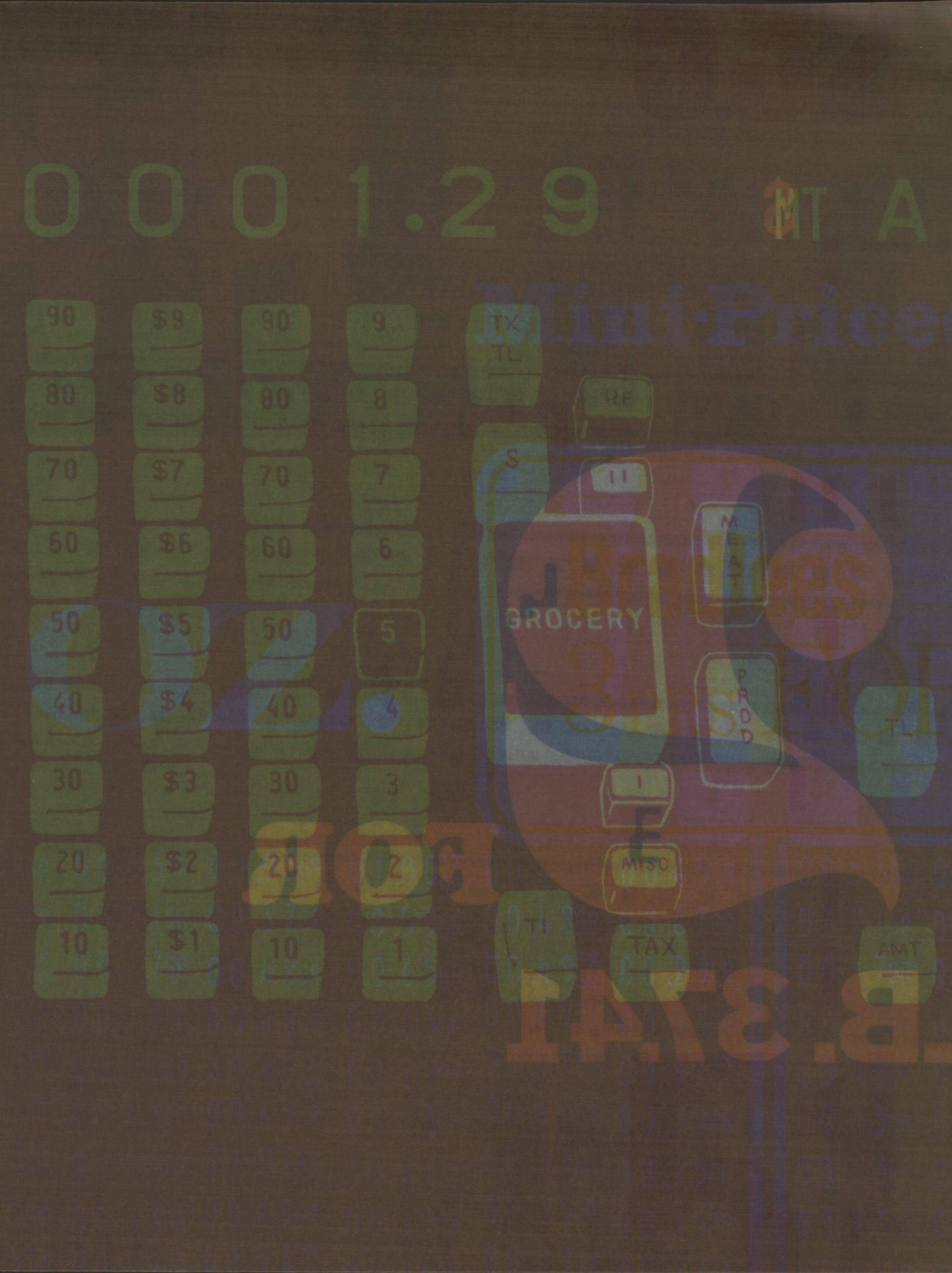

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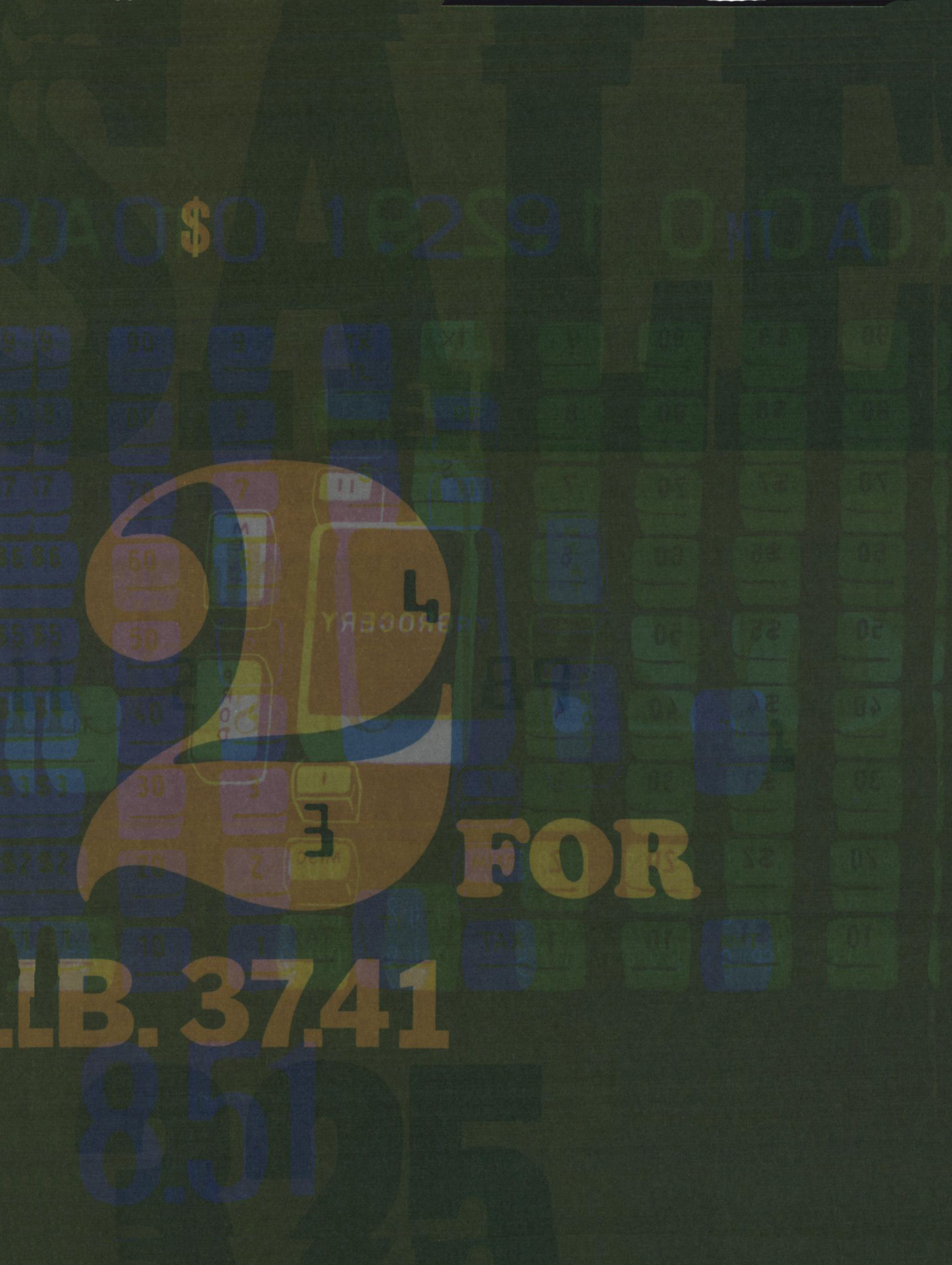
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CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS (NOTE 1)

Year ended July 2, 1966 (with comparative figures for the year ended July 3, 1965)

	1966 52 Weeks	1965 53 Weeks
RETAIL SALES	$469,850,327	$423,172,518
COST AND EXPENSES:		
Cost of goods sold, buying and warehousing costs	381,193,329	335,210,494
Selling, store operating and administrative expenses	74,349,558	70,910,233
Depreciation and amortization	5,840,450	5,576,660
Interest on mortgages	2,010,731	2,000,835
Other interest	667,740	606,935
	464,061,808	414,305,157
EARNINGS BEFORE FEDERAL INCOME TAXES	5,788,519	8,867,361
FEDERAL INCOME TAXES (NOTE 2)	2,325,152	3,613,307
NET EARNINGS	3,463,367	5,254,054
RETAINED EARNINGS AT BEGINNING OF YEAR	23,792,666	21,830,996
	27,256,033	27,085,050
AMOUNT ARISING FROM POOLING OF INTERESTS	———	396,480
	27,256,033	27,481,530
LESS DIVIDENDS PAID:		
Cash dividends	2,282,963	1,674,670
Stock dividend 3%	———	2,014,194
	2,282,963	3,688,864
RETAINED EARNINGS AT END OF YEAR	$ 24,973,070	$ 23,792,666

SUMMARY OF SOURCE AND USE OF FUNDS

Year Ended July 2, 1966 (with comparative figures for the year ended July 3, 1965)

	1966 52 Weeks	1965 53 Weeks
FUNDS PROVIDED:		
Net earnings	$3,463,367	$5,254,054
Less cash dividends on capital stock	2,282,963	1,674,670
	1,180,404	3,579,384
Increase in long-term debt	5,720,459	———
Net assets of Orbit acquired for stock	———	847,509
Other, net	143,398	335,755
	$7,044,261	$4,762,648
USED AS FOLLOWS:		
Excess of expenditures for fixed assets over depreciation and amortization:		
Expenditures for fixed assets, net	$8,455,591	$6,497,441
Depreciation and amortization	5,840,450	5,576,660
	2,615,141	920,781
Purchases of Treasury stock	838,573	774,411
Reduction of long-term debt	———	851,226
Addition to working capital	3,590,547	2,216,230
	$7,044,261	$4,762,648

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEETS (NOTE 1)

July 2, 1966 (with comparative figures as of July 3, 1965)

ASSETS	1966	1965
CURRENT ASSETS:		
Cash	$ 4,795,473	$ 4,973,674
Marketable securities and U. S. Treasury Bills, at cost	1,000,000	288,593
Accounts receivable	2,191,593	2,331,762
Inventories, at the lower of cost or market	37,167,319	32,577,525
Prepaid expenses	1,145,390	1,124,991
Total current assets	46,299,775	41,296,545
FIXED ASSETS, AT COST (EXCLUDING FULLY-DEPRECIATED ASSETS):		
Land, buildings and improvements	59,848,970	58,155,123
Buildings and improvements on leased land	4,785,535	4,270,386
Fixtures, machinery and equipment	32,165,171	29,422,860
	96,799,676	91,848,369
Less accumulated depreciation and amortization	28,471,153	26,103,001
	68,328,523	65,745,368
Leasehold improvements, at cost, less accumulated amortization	4,191,007	4,159,021
Net fixed assets	72,519,530	69,904,389
OTHER ASSETS:		
Notes receivable, investments, etc. at cost	1,128,020	935,264
Deferred charges	797,760	688,227
Total other assets	1,925,780	1,623,491
	$120,745,085	$112,824,425
LIABILITIES		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 2,500,046	$ 2,483,334
Accounts payable	18,148,844	16,287,983
Accrued expenses	4,231,907	4,716,306
Federal income taxes, less U. S. Treasury Bills $1,500,000 (1965, $2,711,407)	19,509	———
Total current liabilities	24,900,306	23,487,623
DEFERRED FEDERAL INCOME TAXES	3,100,355	2,654,668
LONG-TERM DEBT (NOTE 3):		
Mortgage notes payable	35,449,907	34,729,448
Other notes payable	16,500,000	11,500,000
Total long-term debt	51,949,907	46,229,448
STOCKHOLDERS' EQUITY		
Capital stock of $1 par value per share. Authorized 7,500,000 shares (1965, 4,000,000 shares). Issued 3,101,663 shares (note 4)	3,101,663	3,101,663
Capital in excess of par value of capital stock	14,332,768	14,332,768
Retained earnings, exclusive of amounts capitalized through stock dividends (note 3)	24,973,070	23,792,666
	42,407,501	41,227,097
Less cost of 77,299 shares (1965, 32,099 shares) in Treasury	1,612,984	774,411
Total stockholders' equity	40,794,517	40,452,686
	$120,745,085	$112,824,425

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEETS (NOTE 1)

July 2, 1966 (with comparative figures as of July 3, 1965)

	1966	1965
ASSETS		
CURRENT ASSETS:		
Cash	$ 4,778,916	$ 4,955,498
Marketable securities and U. S. Treasury Bills, at cost	1,326,012	559,327
Accounts receivable	2,159,653	2,299,243
Inventories, at the lower of cost or market	37,167,319	32,577,525
Prepaid expenses	1,666,208	1,667,065
Total current assets	47,098,108	42,058,658
Investments in and advances to wholly-owned realty subsidiaries not consolidated, at net equity value (note 1)	3,971,867	4,469,493
FIXED ASSETS, AT COST (EXCLUDING FULLY-DEPRECIATED ASSETS):		
Fixtures, machinery and equipment	32,165,171	29,422,860
Less accumulated depreciation	11,642,673	11,487,283
	20,522,498	17,935,577
Leasehold improvements, at cost less accumulated amortization	7,218,375	7,383,742
Net fixed assets	27,740,873	25,319,319
OTHER ASSETS:		
Notes receivable, investments, etc., at cost	836,876	935,264
Deferred charges	656,752	531,395
Total other assets	1,493,628	1,466,659
	$80,304,476	$73,314,129
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$18,148,844	$16,215,708
Accrued expenses	3,348,164	3,824,096
Federal income taxes, less U. S. Treasury Bills $1,173,988 (1965, $2,440,673)	—	—
Total current liabilities	21,497,008	20,039,804
DEFERRED FEDERAL INCOME TAXES	1,512,951	1,321,639
LONG-TERM DEBT (NOTE 3)	16,500,000	11,500,000
STOCKHOLDERS' EQUITY		
Capital stock of $1 par value per share. Authorized 7,500,000 shares (1965, 4,000,000 shares). Issued 3,101,663 shares (note 4)	3,101,663	3,101,663
Capital in excess of par value of capital stock	14,332,768	14,332,768
Retained earnings, exclusive of amounts capitalized through stock dividends (note 3)	24,973,070	23,792,666
	42,407,501	41,227,097
Less cost of 77,299 shares (1965, 32,099 shares) in Treasury	1,612,984	774,411
Total stockholders' equity	40,794,517	40,452,686
	$80,304,476	$73,314,129

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and all subsidiaries including its wholly-owned realty subsidiaries. The consolidated financial statements for 1965 which previously excluded wholly-owned realty subsidiaries from consolidation, have been restated on the same basis. This change in presentation has no effect upon net income in either year. Presented as supplementary information are the consolidated balance sheets of Stop and Shop, Inc. and Operating Subsidiaries (which exclude wholly-owned realty subsidiaries), and the combined balance sheets of the wholly-owned realty subsidiaries shown in note 6.

2. Federal Income Taxes

Details of the provision for Federal Income Taxes are as follows:

	1966	1965
Current	$2,216,647	$3,269,050
Investment credit	(181,432)	(160,457)
Deferred	289,937	504,714
	$2,325,152	$3,613,307

3. Long-Term Debt

Mortgage notes, 3½% to 6¼%, maturing over a maximum period of twenty years. Although not signed by the company or its subsidiaries, these notes are secured by land, buildings and improvements costing approximately $58,000,000 and by assignments of intercompany lease agreements	$35,449,907
Promissory notes, 5⅛% payable $500,000 annually commencing 1967, and the balance of $4,000,000 in 1982	11,500,000
Promissory notes, 5⅜% payable $250,000 annually commencing 1967, and the balance of $1,250,000 in 1982	5,000,000
	$51,949,907

Current installments of $342,817 under the foregoing mortgage notes have been prepaid.

After July 1, 1967 the mortgage notes mature at an average annual rate of approximately $2,600,000 through 1979 and thereafter at smaller varying amounts through 1986.

The terms of the agreement relating to the unsecured promissory notes, 5⅛% and 5⅜%, contain restrictions on the payment of cash dividends and the purchase or retirement of the company's capital stock. At July 2, 1966 consolidated retained earnings not so restricted amounted to approximately $7,500,000.

4. Stock Options

Under its Stock Option Plans, the company has granted options to certain officers and key employees entitling them to purchase shares of common stock within 5 years from the grant date (7 years old Restricted Plan) at option prices of 100% (new Qualified Plan) or 95% to 110% (old Restricted Plan) of market price on the grant date. Generally, all options are exercisable in four equal cumulative annual installments commencing 18 months after grant date.

Outstanding options at July 2, 1966 have been granted to 75 officers and employees at prices ranging from $16.13 to $24.72 per share.

Changes during the current year are summarized as follows:

	Number of shares	
	Issuable under options granted	Available for option
Balance at beginning of year	40,684	51,500
Options granted	36,600	(36,600)
Cancellations	(4,997)	———
Balance at end of year	72,287	14,900

The number of shares under option at July 2, 1966 and related prices per share have been adjusted for stock dividends and stock splits.

5. Rental commitments

At July 2, 1966 the total minimum annual fixed rentals, exclusive of intercompany rentals, payable under leases expiring after three years, was approximately $5,730,000 plus real estate taxes, insurance, etc. under certain leases. Leases covering about 47% of this amount expire within the next fifteen years and the balance by 1987.

6. Wholly-Owned Realty Subsidiaries — Combined Balance Sheets

Assets:	1966	1965
Cash and receivables	$ 48,497	$ 50,695
Due from Stop & Shop, Inc.	4,921,790	3,546,530
Fixed assets, at cost:		
Land, buildings and improvements	57,973,049	56,154,323
Less accumulated depreciation and amortization	13,194,393	11,569,253
	44,778,656	44,585,070
Other assets	432,152	156,832
	$50,181,095	$48,339,127
Liabilities:		
Current installments of long-term debt	$ 2,500,046	$ 2,483,334
Accounts payable and accrued expenses	1,750,081	1,777,293
Deferred Federal income taxes	1,587,404	1,333,029
Long-term debt, less current installments above (note 3)	35,449,907	34,729,448
Stop & Shop, Inc.'s equity:		
Capital stock	67,820	71,820
Retained earnings	8,825,837	7,944,203
	$50,181,095	$48,339,127

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
2000 TOWER BUILDING PRUDENTIAL CENTER
BOSTON, MASSACHUSETTS 02199

The Board of Directors and Stockholders, Stop & Shop, Inc.

We have examined the consolidated balance sheet of Stop & Shop, Inc. and all subsidiaries as of July 2, 1966 and the related statement of earnings and retained earnings and summary of source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of earnings and retained earnings present fairly the consolidated financial position of Stop & Shop, Inc. and all subsidiaries at July 2, 1966 and the results of their operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying summary of source and use of funds for the year ended July 2, 1966 presents fairly the information shown therein.

The accompanying consolidated balance sheet of Stop & Shop, Inc. and operating subsidiaries (excluding realty subsidiaries) as of July 2, 1966 has also been examined by us and, in our opinion, presents fairly the consolidated financial position at that date of the companies included therein in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

August 26, 1966


Stop Shop
Stop Shop
Stop Shop
Stop Shop
Stop Shop
Stop Shop


Mayonnaise
Mayonnaise
Mayonnaise

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Irving W. Rabb, *Vice Chairman of the Board and Chairman, Executive Committee*
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TRANSFER AGENTS

The First National Bank of Boston
Bankers Trust Company of New York

REGISTRARS

The National Shawmut Bank of Boston
Morgan Guaranty Trust Company of New York

AUDITORS

Peat, Marwick, Mitchell & Co.

GENERAL COUNSEL

Sherin & Lodgen, Boston

GENERAL OFFICES

393 D Street, Boston, Massachusetts 02210

SHARES TRADED ON

Boston Stock Exchange and American Stock Exchange

ANNUAL MEETING

of shareholders will be held at the company's offices,
393 D Street, Boston, Monday, October 24, 1966 at 1:30 P.M.

STOP & SHOP, INC. 393 D Street, Boston, Massachusetts 02210

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